

eFX 'Explainers' Primary Venues



As part of our 'Explainers' series, we shed light on how the electronic FX market operates. This issue focusses on the FX Primary Venues – EBS and MAPI.

What are the primary venues?

- ◆ **EBS** (operated by CME)
 - Considered primary for: EUR, JPY, CHF, CNH, RUB
- ◆ **MAPI** (operated by Refinitiv)
 - Considered primary for: GBP, AUD, NZD, CAD, SEK, NOK, DKK and most EMs

Why are they considered 'primary'?

- ◆ The two venues hold 'authority' (depending on currency) for most global liquid FX Spot currencies due to historical precedence by interbank community / dealer acceptance of levels traded (paid / given) on these platforms
- ◆ Generally, rates from these two venues are used for price construction, TCA analysis, determination of liquidity, usage in benchmark / fixing rates calculation (e.g. WMR) and considered the ultimate market reference point
- ◆ Therefore, they are often used to validate resting order triggers (Stop Loss, Take Profit) and Options contract obligations

How do they work?

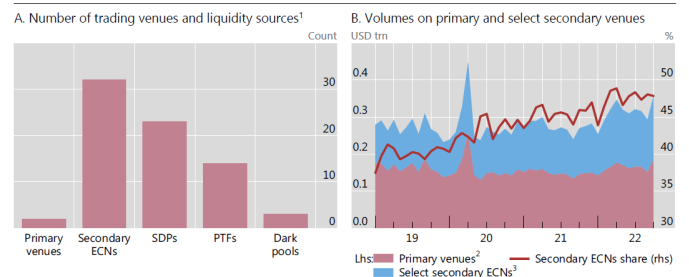
- ◆ They operate as a CLOB (central limit order book) where the relevant venue determines the match between two counterparties with no last look
- ◆ Trading relationships are dependent upon mutual credit assigned and available between counterparties; self-curated liquidity not allowed, which maximises visibility

- ◆ Aside from publishing the actual levels traded on the relevant venue, the venues also publish the volume traded over a one-minute window (possibly aggregating multiple printed levels within that minute)
- ◆ Uniquely, they open at 7am AUK (Auckland), roughly 3 hours earlier than most other venues

Primary vs secondary

- ◆ Primary venue volumes are relatively stable but secondary venues¹ are generally growing their market share, potentially eroding the 'primary' status of primary venues

With further FX market fragmentation, volumes across platforms diverge Graph B1



¹ Primary venues: CME/NEX EBS Market and Refinitiv/Reuters Matching; Secondary ECNs: a variety of anonymous and disclosed multi-dealer platforms; SDPs: proprietary single-dealer platforms of FX dealer banks; PTFs: principal trading firms; Dark pools: electronic venues where information about traders' orders is not revealed to other participants. ² CME/NEX EBS and Refinitiv spot turnover (a proxy for trading volumes on EBS Market and Refinitiv/Reuters CLOBs). ³ 360T, Cboe FX (Hotspot); Euronext FX (Fastmatch); FXSpotStream.

Sources: CBOE; CME; Deutsche Borse; Euronext; FXSpotStream; MarketFactory; Refinitiv; BIS quarterly report December 2022.

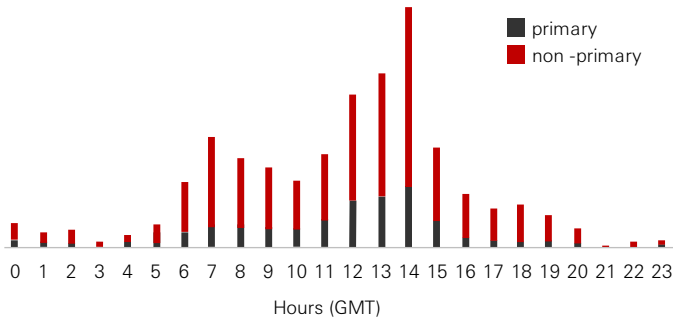
¹ If you want to know more about Secondary Venues, take a look at the next issue of this eFX Explainers series (Issue 2: Secondary Venues).

DM vs EM

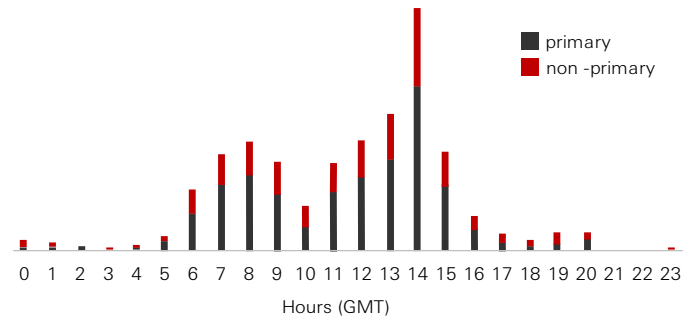
Primary venues generally have a lower market share on DM (Developed Market) than EM (Emerging Market) currencies (see interbank volume by hour of day below). This is generally because EM liquidity is still concentrated to banks (e.g. regional) rather than buy-side market makers.

Examples:

EURUSD

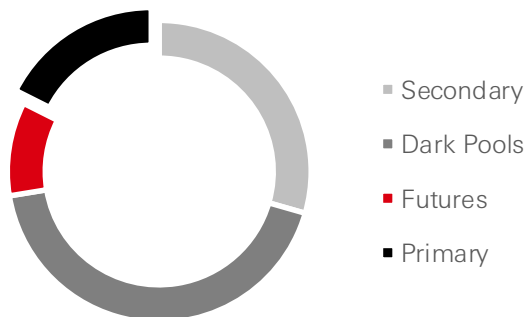


USDZAR



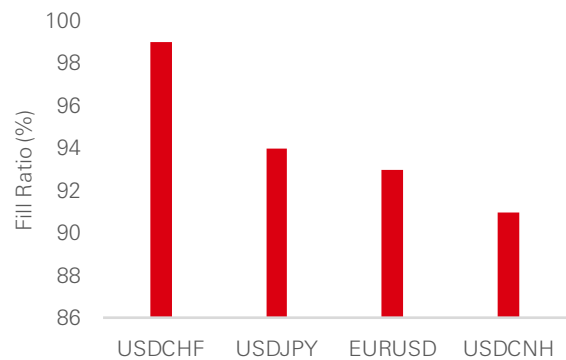
HSBC eFX Volume Distribution

- ◆ The HSBC eFX market making desk has access to liquidity from all established interbank venues
- ◆ Volume executed by HSBC on primary venues (<15%)



EBS

Fill ratio 94%

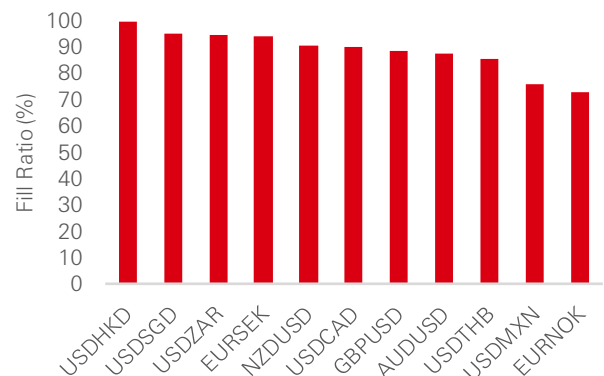


Fill Ratio by Venue

While **last look** is not employed by either of the primary venues, the common misconception that all attempted trades are **always** filled is not true. This is due to either lack of available liquidity to fulfill all counterparty's trade attempts or prices no longer being available.

MAPI

Fill ratio 88%



Despite the changing landscape of the market place as well as the squeeze from competition, primary venues remain an integral part of the FX Market where the prices published and critically **printed**, that are of greater importance than their share of volume. However, to retain their 'primary' status, they will undoubtedly need to adapt to any future market changes.

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